

City of Detroit

CITY COUNCIL

IRVIN CORLEY, JR.
DIRECTOR
(313) 224-1076

FISCAL ANALYSIS DIVISION
Coleman A. Young Municipal Center
2 Woodward Avenue, Suite 218
Detroit, Michigan 48226
FAX: (313) 224-2783
E-Mail: irvin@cncf.ci.detroit.mi.us

ANNE MARIE LANGAN
DEPUTY DIRECTOR
(313) 224-1078

TO: Ron Lockett, Executive Director
Northwest Activities Center

FROM: Irvin Corley, Jr., Fiscal Analysis Director

DATE: April 21, 2010

RE: 2010-2011 Budget Analysis

24.

Attached is our budget analysis regarding your department's budget for the upcoming 2010-2011 Fiscal Year.

Please be prepared to respond to the issues/questions raised in our analysis during your scheduled hearing on **Friday, April 23, 2010 at 1:30 p.m.** We would then appreciate a written response to the issues/questions at your earliest convenience subsequent to your budget hearing. Please forward a copy of your responses to the Councilmembers and the City Clerk's Office.

Please contact us if you have any questions regarding our budget analysis.

Thank you for your cooperation in this matter.

IC:ss

Attachment

cc: Councilmembers
Council Divisions
Auditor General's Office
Pam Scales, Budget Department Director
Norman White, Chief Financial Officer
Donna McAlister, Budget Department
Kamau Marable, Mayor's Office

Northwest Activities Center

FY 2010-11 Budget Analysis by the Fiscal Analysis Division

Summary

Northwest Community Programs, Inc. operates the Northwest Activities Center a non-profit corporation. The building is owned by the City of Detroit and is leased to the non-profit corporation for \$1 per year.

The Northwest Activities Center has facilities for recreational, cultural and educational activities. The recreational facilities include a swimming pool, gymnasium, outdoor tennis courts, athletic field, and indoor racquetball and squash courts. Recreational classes such as swimming, aerobics and dance are offered.

The Northwest Community Programs, Inc. has for many years been given a grant by the United Way Foundation for handling three special at risk programs:

- Children and Youth Crisis Program
- Teen Parenting Program
- Problems of the Elderly Program

The complex also has sufficient space in which to lease space to the Police Athletic League (PAL), the Police Department's Western Operations' Administration, Wayne State University's College of Lifelong Learning, various community theatre groups and four retail stores.

The non-profit organization has a 13-member board of directors of which 12 are currently filled. The board appoints the Executive Director of the Northwest Community, Inc. Seven positions are mayoral appointees: of which, shall be employed by the City of Detroit and have expertise in at least one of the following areas, (1) Accounting, (2) Engineering, (3) Human/Social Services, (4) Law, (5) Public Administration and (6) Recreation/Cultural. Six board positions are community persons recommended by the organization's Executive Director, but appointed by the Mayor. One position is currently vacant.

The Administration has historically budgeted a General Fund subsidy for the Center's operating budget as a "contribution or transfer" in the Recreation Department's budget. The current year's budget had a contribution of \$220,000 to the recreation center. In the 2010-11 Executive Budget, the Administration has recommended a General Fund subsidy of \$220,000 to the Northwest Activities Center for the operating costs at the Northwest Activities Center, a \$55,000 (33%) increase. This contribution is located in Recreation's budget in Appropriation 11657 Business Operations & Support Services.

Recreation Department General Fund Contribution to the Northwest Activities Center

FY	2004-05	2005-06	2006-07	2007-08	2008-09	2009-2010	2010-11
Funding	\$800,000	\$540,000	\$220,000	\$220,000	\$220,000	\$165,000	\$220,000
% Change		(32.5%)	(9.3%)	0%	0%	(25%)	33%

2010-11 Preliminary Budget Information

We have not received a copy of the Northwest Activities Center (NWAC) 2010-11 preliminary budget as we have most years. The fact that we have not received the 2010-11 preliminary budget or any updates from NWAC, has limited us in providing any updated information on the NWAC.

BUDGET SUMMARY page D129: The NWAC via NWCP in a collaboration with the Recreation Department, the Detroit Area Agency on Aging and Catholic Social Services, will continue to serve as the lead agency and will receive \$127,500 in the second year (2010-11) of a 3-year grant from the United Way of Southeastern Michigan to provide Seniors over the age of 55, computer training, health maintenance and community services on a 1:1 ratio.

NWAC continues to serve as the Detroit campus for Eastern Michigan University.

2009-10 Preliminary Budget Information

Last year, the Northwest Activities Center's projected annual revenue was \$2.3 million, which included the City's direct contribution of \$165,000 (from Recreation), which was 7.1% of the total. The remaining \$2.14 million in budgeted revenues are generated from grants, room rentals, membership dues, class registration fees and in-kind contributions. The Northwest Activities Center's projected expenses in its operating budget were approximately \$2.3 million, for a slight \$80 budgeted.

The Northwest Community Programs' comments on its budget *last year* were as follows:

Revenue

Health Club:

The Agency expects increased revenue from memberships during FY 09-10. The FY 08-09 revenue was based on fees being paid over 2 months. Projected revenue is lower due to the change in payment structure. Membership revenue is based on a total of 833 memberships.

- 574 senior memberships @ \$100 (\$57,400). 171 Single memberships @ \$475 (\$81,225), 88 Family memberships @ \$600 (\$52,800) totaling \$134,025.
- Overall membership increased from 800 to 833, the individual membership fee was increased 82%, 90% and 665 respectively.
- The membership fee payment period was extended from 2 months to 12 months.
- Increases in class and guest fees assuming no shut downs this fiscal year.
- The agency has set a goal of increasing memberships:
 - Minimum 25 new single
 - Minimum 25 new family

Booking:

NWCP anticipates the revenues from the Sales & Events Office, which are projected fiscal 08-09 revenues, to increase slightly due to the following factors:

- Due to the economic climate of the city of Detroit and the region, less corporate events and meetings are being held off site.

- WCCC has built a state-of-the-art conference center on the former site of Mercy College. The International Association of Conference Centers will accredit the new conference center. WCCC is collaborating with the Ritz Carlton organization on employee recruitment and training.
- NWCP inability to receive a liquor license due to the fact that our location is within 500 feet of a church.
- Five caterers will assist in promoting and referring events to NWAC.
- NWAC has developed and continues to develop relationships with entertainment promoters and urban theater companies in order to book first class, family oriented entertainment in the Paul Robeson Theatre.
- NWAC will hopefully reduce the number of spaces provided on a complimentary basis to governmental entities.
- NWCP is developed a web site and marketing materials.
- NWCP is formulating strategic partnerships with area businesses such as Sinai-Grace Hospital, American Diabetes Association, and Quality Home Health Care to develop and execute programs to serve the community and generate facility rental revenue.

Business Office:

- The Agency expects revenue from vending to increase slightly due to increased foot traffic, vending location in the building and NWAC's location in the neighborhood.
- The Agency expects a slight increase in other revenue from fee income. (i.e. application fees, membership card fees, etc.)

C of D Allocation:

The Agency expects a decrease in the allocation of \$55,000.

Donations/Grants:

- The agency continues to pursue additional public and private funding.

United Way Allocation:

No change

Expenses

Salary and Fringe Benefits:

Budgeted payroll expenses were increased for fiscal year 2009-2010 due to the need to hire additional employees. The Agency anticipates the Recreation Department will (implement) budget cuts in the in kind staffing as a cost cutting measure. The Agency has developed a contingency plan and budget the potential cuts in Recreation staffing.

Operating Expenses:

- Operating expenses show a slight increase for FY 2009-10.
- Budget amounts are based on an extrapolation of YTD amounts plus a ten percent (10%) increase.

Interest and Loan Payments:

- All Comerica Bank loans have been paid off, final payment April 2009.

- Chase Loan with a balance of \$41,000 will be paid down by approximately \$13,000 for the fiscal year 08-09, leaving a balance of \$28,000. Original loan balance \$135,000.

Debt Repayment

- Accrued union contract liability for retroactive pay raises prior to fiscal years 2004-2005 and 2005-2006. (\$7,583)
- One-time charges for renovation related expenses on the elevator and additional electrical work not covered by the City of Detroit (\$11,000) will be paid off during fiscal year 09-10.
- Monahan loan will be paid off during the 09-10 fiscal year, balance \$5,400, original balance \$80,000.
- Repaying the City of Detroit for the purchase of health club equipment, original balance \$138,000, balance a/o 4/09 \$108,000.

Major Debt Paid Off During the 08-09 Fiscal Year

- **Comerica Loan #2, original loan amount \$65,000**

In-Kind

- Utilities are based on fiscal 2008-2009 actual totals
- The agency expects significant reduction in staff due to City of Detroit budget reductions.

Recent Renovations to the Northwest Activities Center

Due to the fact that the Recreation Department moved its Administrative Offices to the Northwest Activities Center, work was done to renovate the facility and to retrofit office space for Recreation. According to RAD's Contracts and Purchase Order report of October 30, 2007, on June 9, 2006, Council initially approved a contract for the renovation of the Northwest Activities Center in the amount of \$3,600,000. Subsequently, there were three change orders for this contract.

With the first change order, RAD reported the following in its Contracts and Purchase Order report of September 13, 2006:"The total estimated cost for the completion of the renovation at the Northwest Activities Center is indicated by the Department (Recreation) to be slightly less than \$15,000,000. There will be a future amendment to provide the additional funding. This cost for the renovation is from General Obligation Bonds."

The first change order of \$2,500,000 was approved by Council September 2006 and increased the costs to \$6,100,000. Council approved the second change order for \$8,800,000 October 2006, increasing the authorized costs to \$14,900,000. The Council approved the third and final change order for \$600,000 on November 2, 2007, thereby bringing the cost for the complete renovation of the Northwest Activities Center to \$15,000,000.

According to an official statement from the Recreation Department, after the renovation work was completed, which included the instillation of air-conditioning units on the roof and several roof repairs, it was later determined that the Northwest Activities Center

was in need of a complete roof replacement. The Recreation Department subsequently submitted a contract for \$2.5 million for the replacement of the roof.

Chronology of Northwest Activities Center improvements and programs

In December 2000, the Northwest Activities Center completed its building improvements in the north wing, by completing its renovations of their third floor office space and by creating barrier free access to the building to comply with ADA standards. This was funded through the City of Detroit Recapitalization Project for Capital Improvements. Also completed in the 2000-01 fiscal year, were the projects to retile both the men's and women's steam rooms, repainting the gymnasium, updating the weight room by rubberizing the floor and enhancements to the endurance room. The renovations to its theatre, ballroom kitchen and lobby were completed in July 2001.

In 2003, the Northwest Activities Center accomplished its capital repair goals of retooling the athletic wing Northwest Activities Center. The work included, repainting the athletic wing, combining the endurance/cardio room with the free weight area, repairing the showers in the men's and women's locker rooms, and reconnecting the gas lines in order to provide members with clean fresh towels. The improvements were completed October 1, 2003. In 2004, the Northwest Activities Center launched a major membership drive to increase revenue. Included in the drive was an offer of discounted memberships of 20% to City of Detroit employees and their families. The rationale for the major membership drive is that the improvements now allow the Northwest Activities Center to compete with other comparable facilities in the city.

The membership drive was also extended to former members, in order to generate additional revenue on an annual basis by increasing the number of paid memberships. One of the Northwest Activities Center's past accomplishments involved the Mayor's Time children's program, the Northwest Activities Center, through an in-kind contribution from the Intel Corporation, implemented the Intel Computer Clubhouse Program. The Intel program, for 10-18 year-olds cognitive skills development, includes 18 computer stations and a state-of-the-art sound studio.

Issues and Questions

The **2008-09 FY** was the last year that the NWAC received a \$220,000 budget allocation via the Recreation Department. Given the fact that we did not receive a copy of the NWAC 2010-11 preliminary budget as we have most years, we estimate that in 2010-11, the NWAC will receive the majority of its revenue from the **City of Detroit (63.6%)**, as the chart below detailing 2008-09 indicates:

FY 2008-09 Budget Estimates for NWAC

City of Detroit (Budget) Allocation	\$220,000
(City of Detroit) Utilities-In-Kind	\$253,000
(City of Detroit) Staff-In-Kind	<u>\$1,073,000</u>
CITY OF DETROIT REVENUE TOTAL	\$1,546,000
CITY OF DETROIT PERCENTAGE OF TOTAL REVENUE	63.6%
NWAC SHARE OF REVENUE	\$883,200
NWAC PERCENTAGE OF REVENUE	<u>36.4%</u>
TOTAL REVENUE FOR NWAC	\$2,429,200

As the **FY 2008-09 Budget Estimates for NWAC** chart indicates, the City provided its annual budget allocation of \$220,000, \$253,000 in utilities payments (Utilities-In-Kind), and \$1.073 million in staffing costs for the NWAC director and several Recreation Department employees (Staff-In-Kind). This brings the annual total to \$1,546,000 for the City's share of the annual revenues for the NWAC (63.6%). According to the **Auditor General's report of April 25, 2007** (attached), the NWAC could not provide any documentation that supported the Staff-In Kind costs and that the current lease (at the time, set to expire in June 2008) agreement between the City and NWACP states that the NWACP is responsible for the utilities costs. Given these issues, we concur with the Auditor General, and his finding that the lease agreement between the City of Detroit and Northwest Community Programs (NWCP), Northwest Activities Center's (NWAC) non profit entity, should accurately reflect the obligations taken on by the City in regard to the costs of the NWAC.

In the 2007-08 fiscal year, the Recreation Department relocated its administrative offices from the Cadillac Tower to the Northwest Activities Center and revitalized the operations of the Northwest Activities Center.

- How has the move impacted the daily operations of the Northwest Activities Center?
- What impact did the renovations of the Northwest Activities Center have on revenues?
- Please provide a copy of the NWAC 2010-11 preliminary budget, which includes an accounting for the Staff-In-Kind and Utilities-In-Kind costs, budgeted for the 2010-11 FY.
- How many Recreation Department employees does the Staff-In-Kind category include?
- According to the attached Auditor General April 2007 report, the active lease at that time was set to expire June 30, 2008. What is the current status of the lease agreement between the City and the NWCP?
- Please provide a copy of the most recent lease agreement between the City of Detroit and the NWCP?
- Please respond to the issues raised by the Auditor General in his April 25, 2007 report (attached).
- Currently, does the Northwest Activities Center have adequate staff to maintain its operations at an optimum level?

Attachment: Auditor General's NWAC report of April 25, 2007

IC:DH



City of Detroit
OFFICE OF THE AUDITOR GENERAL
COLEMAN A. YOUNG MUNICIPAL CENTER
2 WOODWARD AVENUE, SUITE 208
DETROIT, MICHIGAN 48226
PHONE: (313) 224-3101
FAX: (313) 224-4091
WWW.CI.DETROIT.MI.US

LOREN E. MONROE, CPA
AUDITOR GENERAL

MEMORANDUM

DATE: April 25, 2007
TO: Honorable City Council
FROM: Loren E. Monroe, CPA *Loren E. Monroe*
SUBJECT: Northwest Activity Center

This memorandum serves to provide your Honorable Body with a report on our review of the Northwest Activity Center (Center) and Northwest Community Programs (NWCP), the non-profit organization contracted to manage the Center. This report contains information regarding the results of previous audits performed by the NWCP's external auditor, an analysis of the Center's revenues and expenditures, and our issues and concerns.

Background

The Center is owned by the City of Detroit (City). The City leases the building to NWCP and then contracts with NWCP to manage the Center. According to the by-laws of NWCP, the board of directors is appointed by the Mayor and should consist of seven members who are employees of the City and six members of the community. However, the current roster of the board of directors is comprised of ten members; seven City employees and three members of the community. The term of the current lease is July 1, 2003 through June 30, 2008. Subject to City Council approval, the lease may be extended for two one-year periods. The terms of the contract state that the Center is responsible for all taxes, utilities and communication service charges.

The NWCP manages all the various activities at the Center, including the health club, which is opened to paying members. Individuals may also pay on a daily basis to use the health club facilities. In addition to the health club, NWCP also provides programming for community members, including after school tutoring and seniors programs.

NWCP rents the facilities to others for events, and leases office space on a long-term or short-term basis to groups and organizations. These include Eastern Michigan University, which holds its Detroit classes at the Northwest Activity Center. Eastern Michigan University pays \$8,647 per month for the use of the space it occupies.

The Center is currently undergoing major renovations. Originally the renovations were to make the building suitable for the Recreation Department to move its headquarters there. However, due to structural issues with the building and health club, and to bring the building up to standards required by the Americans' with Disabilities Act (ADA), the

renovations are now much more extensive. The City, through bond dollars, is funding the cost of the renovations. The original amount of the contract for the renovations was \$3.6 million. Through amendments approved by your Honorable Body the current contract amount is \$14.9 million dollars. The current contract amount includes a complete renovation of the health club facilities, office space for the Recreation and Senior Citizen Departments, as well as, remodeling of other office spaces and areas which generate rental revenue. It is projected the renovations will be completed by the end of fiscal year 2007 with the health club slated to re-open in July 2007. The Recreation Department and Senior Citizens Department are both scheduled to move into their offices in the Center by July 1, 2007.

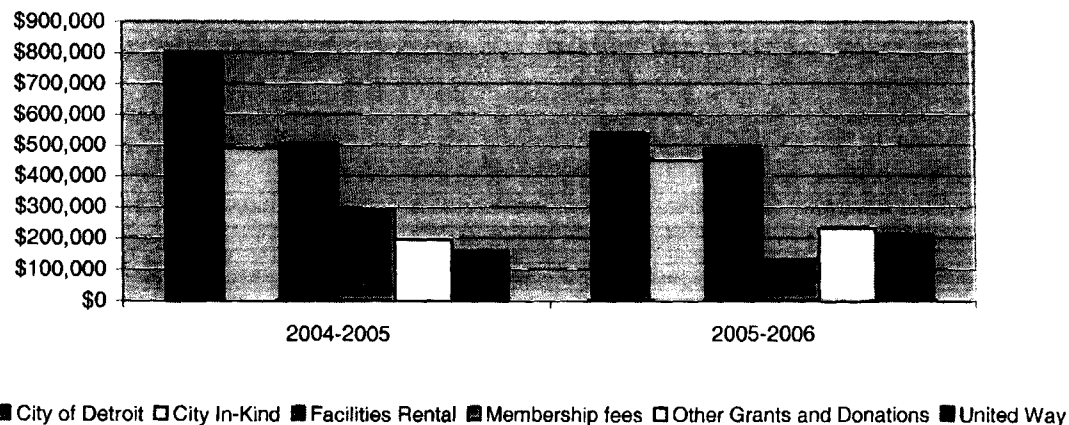
Operating Revenue Sources

The Northwest Activity Center receives the majority of its operating revenue from the City of Detroit. The Center also receives operating revenue from the health club, office space leases, and room rental fees from events held at the Center. As of December 31, 2006, the Center suspended most of its services due to building renovations.

The following table and chart detail the Centers operating revenues for fiscal years 2004-2005 and 2005-2006.

Revenue	2004-2005	2005-2006	Increase (Decrease)
City of Detroit			
Subsidy	\$ 800,000	\$ 540,000	\$ (260,000)
City In-Kind (A)	490,485	452,515	(37,970)
Facility Rentals	504,293	485,551	(18,742)
Membership fees	294,842	129,382	(165,460)
Other Grants and			
Donations	197,480	234,792	37,312
United Way	158,144	210,215	52,071
Total Revenue	\$ 2,445,244	\$ 2,052,455	\$ (392,789)

(A) In-kind services provided by the City consist of salary and wages of \$100,000 for the CEO/Executive Director, and the cost of utilities.



From fiscal year 2004-2005 to 2007-2008, the City reduced its operational funding of the Center \$0.6 million or 72.5%. The following schedule shows City funding of the Center for fiscal years 2004-2005 through 2006-2007:

<u>Fiscal Year</u>	<u>Amount</u>	<u>Increase/(Decrease) From Prior Year</u>
2004-2005	\$800,000	
2005-2006	\$540,000	\$(260,000)
2006-2007	\$220,000	\$(320,000)
Proposed 2007-2008	\$220,000	-

Operating Expenditures

Operating expenditures exceeded revenues by \$0.1 million for fiscal year 2004-2005. In fiscal year 2005-2006 the NWCP's operating expenditures exceeded revenues by \$196,480. The schedule below illustrates operating net revenues over/(under) expenditures for fiscal years 2004-2005 through 2005-2006 as reported in NWCP's audited financial statements.

<u>Operating Fund</u>	<u>2004-2005</u>	<u>2005-2006</u>
Revenue, including in-kind	\$ 2,445,244	\$ 2,052,455
Expenditures, including in-kind	<u>(2,335,297)</u>	<u>(2,015,819)</u>
Surplus/Deficit, excluding depreciation	109,947	36,636
Less: Depreciation	<u>(239,043)</u>	<u>(233,116)</u>
Net Surplus/(Deficit) including depreciation	<u>\$ (129,096)</u>	<u>\$ (196,480)</u>

In-kind Services

In addition to the general operation subsidy, the City provided in-kind services of \$490,485 and \$452,515 for 2004-2005 and 2005-2006 respectively. Included in the in-kind totals is the \$100,000 salary of the Executive Director of the Center and the utility costs of the Center, which average approximately \$371,500, both of which are paid by the Recreation Department. If the City's subsidy and in-kind contributions are deducted from the Center's revenues, the Center's actual earned revenues for fiscal years 2004-2005 and 2005-2006 are \$1.2 million and \$1.0 million respectively. The Center's revenues excluding support from the City for fiscal years 2004-2005 and 2005-2006 are shown below.

<u>Operating Fund</u>	<u>2004-2005</u>	<u>2005-2006</u>
Revenue (including in-kind)	\$ 2,445,244	\$ 2,052,455
Less: Operational Funding	\$ (800,000)	\$ (540,000)
Executive Director's Salary	(100,000)	(100,000)
Utilities	<u>(390,485)</u>	<u>(352,515)</u>
Net Revenue	<u>\$ 1,154,759</u>	<u>\$ 1,059,940</u>

The NWCP could not provide any documentation to support the in-kind totals reported in their financial statements. According to NWCP staff, in-kind totals are based on estimates.

Issues and Concerns:

Included in our review was an assessment of the action steps taken by NWCP to resolve several internal control weaknesses identified in the June 30, 2006 management letter prepared by the NWCP's external auditors. We found that the NWCP did not resolve the following issues:

1. Segregate the duties in the cash receipts process.
The cash receipts and bank reconciliation processes are not segregated.
2. Amend lease to reflect the City of Detroit's obligation to pay the utility costs
According to the terms of the current lease, the NWCP is responsible for all utilities. However, the City's Recreation Department continues to pay for the Center's utilities.

In addition to the recommendations made by the NWCP's external auditors, we found the following:

1. The NWCP does not maintain adequate documentation to support in-kind contributions

The NWCP could not provide documentation to support a total of \$0.9 million of in-kind contributions for fiscal years 2004-2005 and 2005-2006. According to NWCP staff, in-kind contributions are based on estimates and no records are kept regarding the in-kind services provided by the City.

Failure to maintain adequate support for in-kind contributions increases the risk that the in-kind contribution amounts reported on the financial statements are inaccurate.

We recommend the NWCP maintain adequate documentation for in-kind contributions.

2. The check writer for the Center's bank accounts is also the check signer.

We found that the staff person who approves purchase orders also writes the checks and is one of the authorized signers on the Center's checking accounts.

Effective controls over disbursements include the segregation of incompatible duties in preparing and authorizing checks.

Lack of adequate controls in the NWCP's check disbursement process increases the risk of fraud. Failure to segregate incompatible duties in the check disbursement process could result in a misappropriation of funds.

We recommend that the NWCP segregate the functions of the check writer and check signer.

3. The NWCP has not established formal policies for office space rentals or developed rental fee schedules.

Failure of the NWCP to establish formal policies for its office space rentals or develop market rate fee schedules increases the risk that optimal revenue will not be achieved.

We recommend the NWCP establish formal policies for office space rental which include developing fee schedules